

Michigan Public School Employees' Retirement System

A Pension and Other Employee Benefit Trust Fund of the State of Michigan

Annual Supplemental Report for Fiscal Year 2015



Prepared by
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About the Michigan Public School Employees' Retirement System

This report is in compliance with Public Act 300 of 1980, as amended. The contents came from the complete 2015 Comprehensive Annual Financial Report (CAFR), an existing public data source available on our website at www.michigan.gov/orsschools, and additional analysis performed after September 30, 2015.

The Michigan Public School Employees Retirement System serves 207,651 retirees receiving monthly benefits, and 228,419 active members. Public school employees' pensions are protected by Michigan's Constitution. The System's net assets are held in trust to meet future benefit payments.

Assets & Liabilities*

System total assets as of September 30, 2015 were \$49.4 billion and were mostly comprised of cash, investments, and contributions due from employers.

Total liabilities as of September 30, 2015, were \$3 billion and were comprised of accounts payable, deferred revenue, and obligations under securities lending.

System assets exceeded its liabilities at the close of fiscal year 2015 by \$46.5 billion. Total net assets held in trust for pension and Other Post-Employment Benefits (OPEB) decreased \$842 million from the previous year, primarily due to lower than anticipated investment returns.**

Assets (in thousands)	FY 2015		FY 2014	
Cash	\$	163,639	\$	246,675
Receivables		410,520		370,268
Securities Lending Collateral		2,720,434		3,149,098
Investments		46,140,381		47,060,268
Total Assets	\$	49,434,974	\$	50,826,309
Liabilities (in thousands)	FY 2015		FY 2014	
Accounts Payable and Other Liabilities	\$	249,282	\$	259,986
Obligations Under Securities Lending		2,720,029		3,258,914
Total Liabilities	\$	2,969,311	\$	3,518,899
Net Assets		46,465,663	\$	47,307,410

*Source: CAFR for the Fiscal Year ended September 30, 2015, p. 20.
 CAFR for the Fiscal Year ended September 30, 2014, p. 20.

* Liabilities in this context are exclusive of Unfunded Accrued Actuarial Liabilities (UAAL) for pension and health.

** Source: Comprehensive Annual Financial Report (CAFR) for the Fiscal Year ended September 30, 2015, p. 17.

Revenue and Expenditures

The reserves needed to finance pension and other post-employment benefits are accumulated through the collection of employer and employee contributions and through earnings on investments. Contributions and net investment income for fiscal year 2015 totaled approximately \$4.7 billion.

The primary expenses of the System include the payment of pension benefits to members and beneficiaries, payment for health, dental and vision benefits, refund of contributions to former members, and the cost of administering the System.*

*Source: CAFR for the Fiscal Year ended September 30, 2015, p. 18.

Additions (in thousands)	FY 2015	FY 2014
Member Contributions	\$ 777,353	\$ 796,288
Employer & Other Governmental Contributions	2,937,242	2,600,545
Net Investment Income (loss)	989,727	6,543,513
Transfers and Misc. Income	647	2,793
Total Additions	\$ 4,704,969	\$ 9,943,138

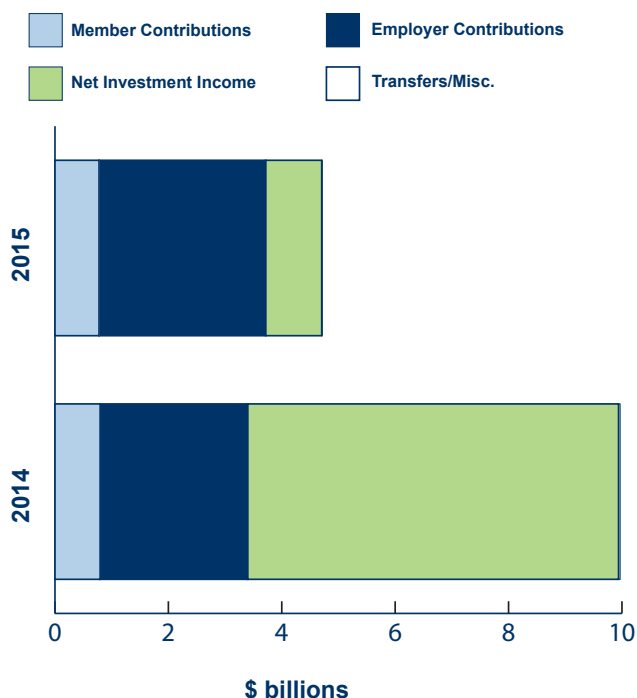
Deductions (in thousands)	FY 2015	FY 2014
Benefit Payments	\$ 4,530,916	\$ 4,388,329
Health, Dental, & Vision Benefits	700,903	669,240
Transfers & Refunds	136,998	28,910
Administrative Expenses	177,899*	157,335*
Total Deductions	\$ 5,546,716	\$ 5,243,813

Assets (in thousands)	FY 2015	FY 2014
Beginning of Year Assets	\$ 47,307,410	\$ 42,608,084
End of Year Net Assets	\$ 46,465,663	\$ 42,307,410

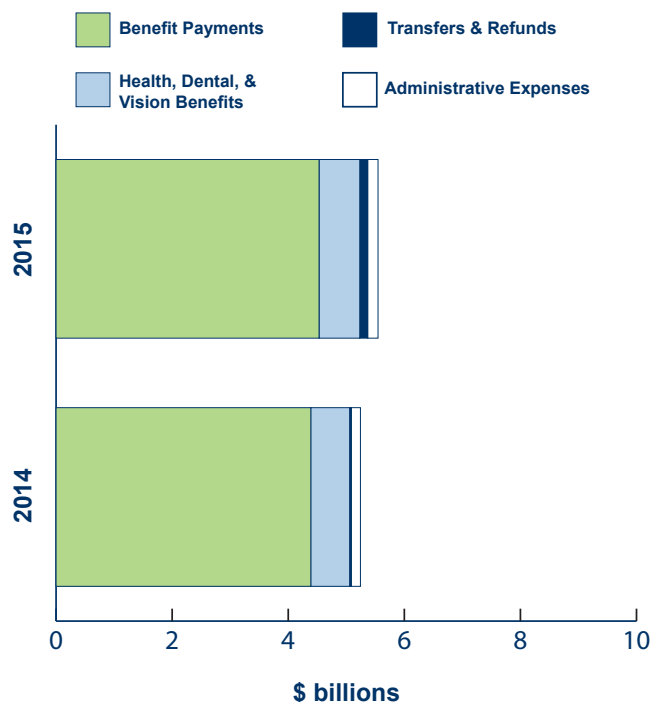
* Reflects participation in federal programs that provide a federal subsidy for eligible healthcare claims, producing a net overall savings to the system.

*Source: CAFR for the Fiscal Year ended September 30, 2015, p. 21.
CAFR for the Fiscal Year ended September 30, 2014, p. 21.

Revenues



Expenditures



Investments & Earnings

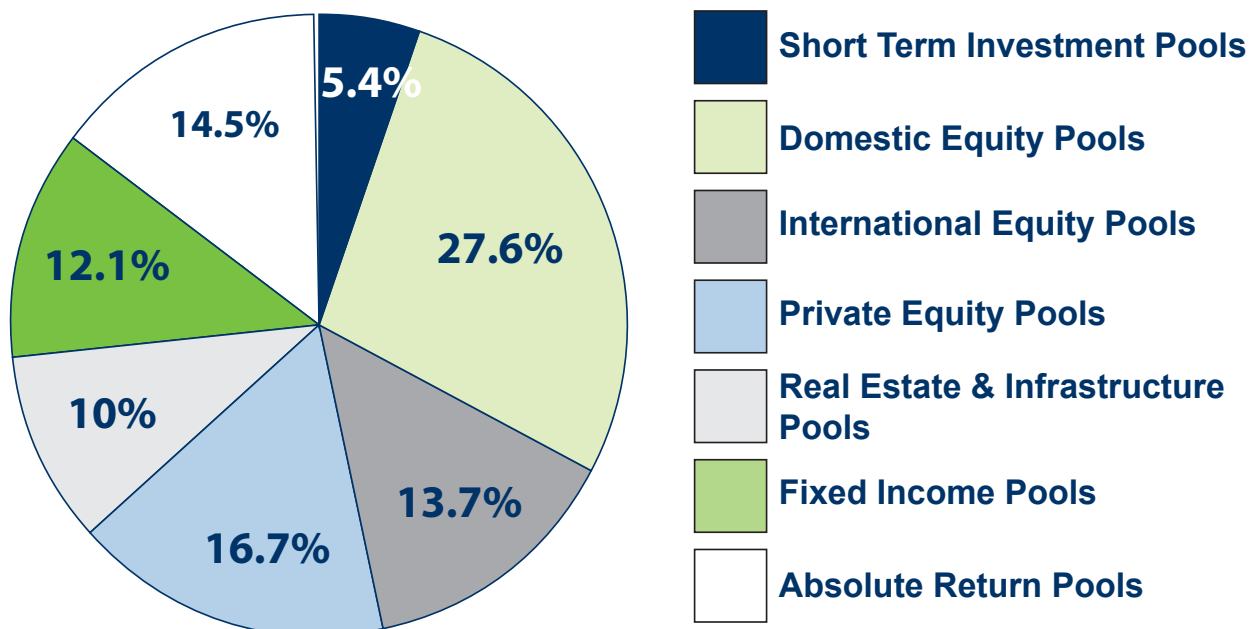
The State Treasurer administers all of the system's investments. The main objective is to maximize the return rate and meet the actuarial assumptions by being prudent with investments, and maintaining a diverse portfolio to eliminate unnecessary risk.

Why are there different types of assets in the retirement plan's portfolio? Having a diverse portfolio is like having shocks on a car. It minimizes the volatility, so the returns vary less from year to year. Even though market performance may fluctuate, the long-term performance of the retirement system's portfolio remains stable. This ensures our funds are financially sound.

Investments & Earnings*		
	Market Value	Total Investment and Interest Income
Fixed Income Pools	\$ 5,584,455,359	\$ 162,824,595
Domestic Equity Pools	12,792,682,226	(52,531,667)
Real Estate & Infrastructure Pools	4,630,024,171	464,821,628
Private Equity Pool	7,721,384,769	783,016,151
International Equity Pools	6,321,389,506	(610,908,847)
Absolute Return Pools	6,738,980,233	208,763,584
Short Term Investment Pools	2,515,104,364	4,677,381
Market Value and Net Investment Gain	<u>\$ 46,304,020,628</u>	<u>\$ 960,662,825</u>

*Source: CAFR for the Fiscal Year ended September 30, 2015, p. 73.

Investment Classes**



**Source: CAFR for the Fiscal Year ended September 30, 2015, p. 67.

Market Funded Ratios & Actuarial Funded Ratios

Pension

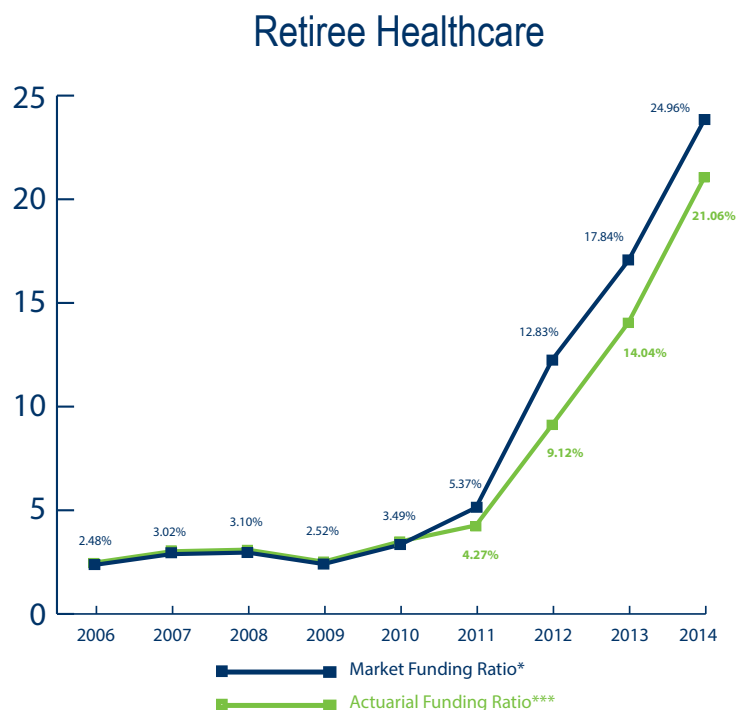
The market funding ratio is based only on the market value of assets at fiscal year end. The actuarial funding ratio incorporates a 5-year “smoothing” period that reduces volatility. The actuarial funding ratio is the common metric used by all pension plans nationwide. This smoothing process is used by almost every retirement system in the country; it helps avoid volatility in the pension systems’ funding requirements. As the economy improves, the funding ratio will also improve.



Healthcare

Starting in 2012, the Public School Employees Retirement System began pre-funding retiree health care costs, which significantly decreased the liability and increased the asset levels. Pre-funding is a best practice that invests assets and allows investment returns to help fund the plan.

Before 2012, the System was funded on a pay-as-you-go basis, so market and actuarial funded ratio were the same. Beginning in 2011, active member contributions required by Public Act 75 of 2010 were counted in the market value, but not the actuarial value. Over time, as pre-funding and member contributions ramp up, the funding ratio will improve significantly.



*Calculated on Market Value of Assets.

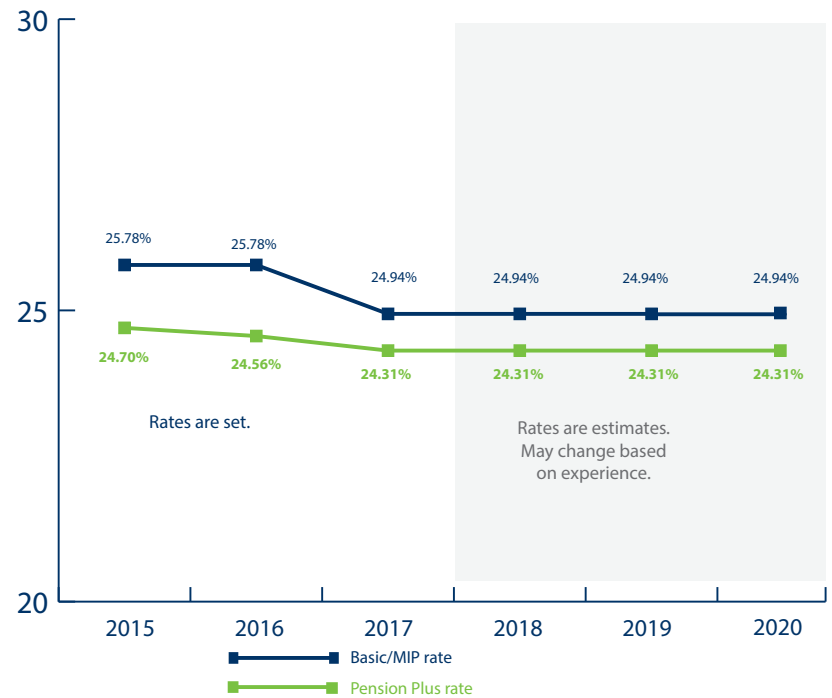
**Source: CAFR for the Fiscal Year ended September 20, 2015, p. 98.

***Source: CAFR for the Fiscal Year ended September 20, 2015, p. 46.

Contribution Rates

Contribution rates are determined actuarially based on the economic conditions and an assumed investment return each year. Contribution rates for fiscal years 2016 and 2017 have been calculated, provided to the employers, and published on the employer website.

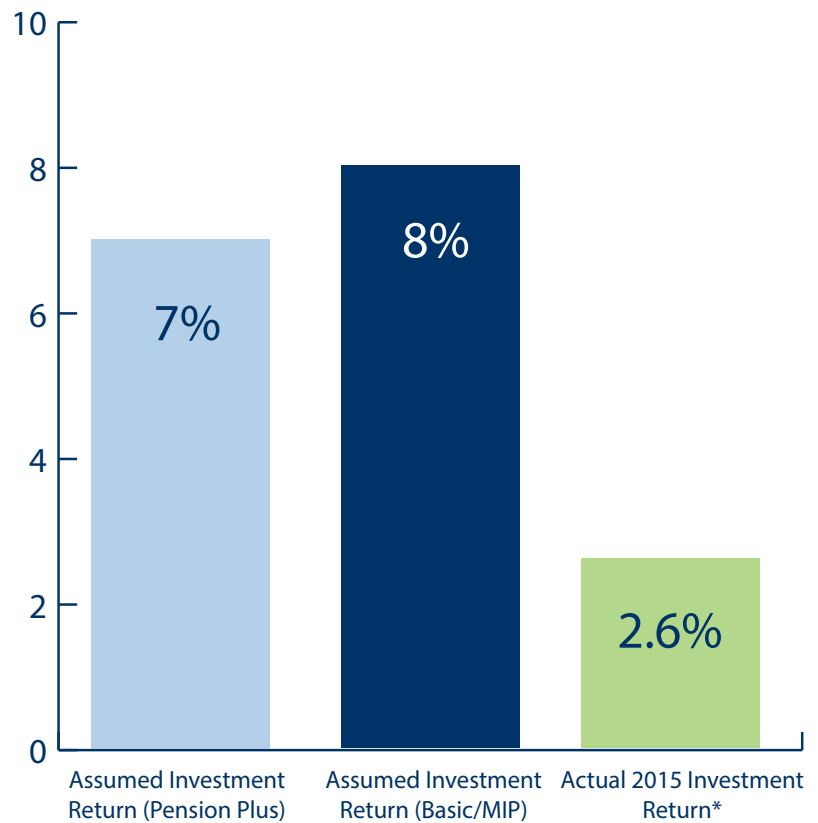
Rates for fiscal years 2018, 2019, and 2020 are estimated using the most recent data available.



Discount Rates and Actual Investment Return

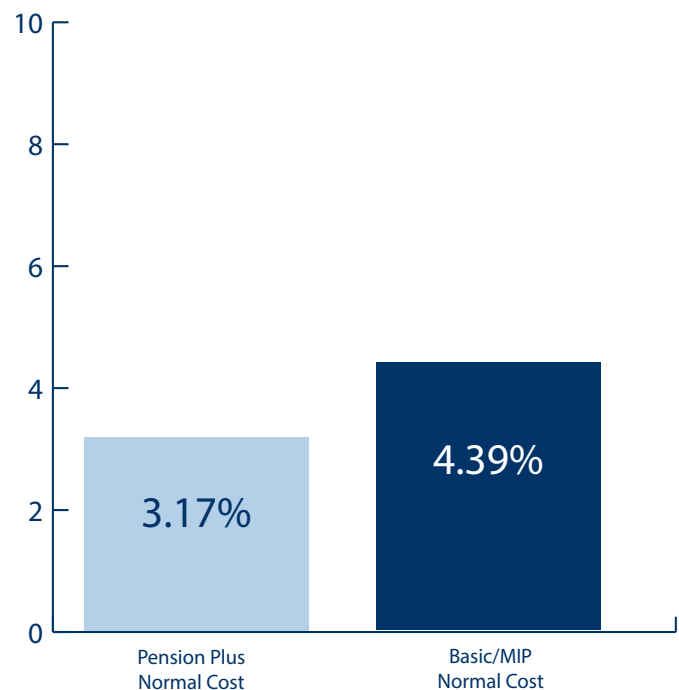
Contribution rates are determined by actuaries based on an assumed investment return each year. These assumptions are different for the Basic Plan/Member Investment Plan (MIP) and Pension Plus plan: 8 percent and 7 percent, respectively. When investments do not meet the assumed rates of return, as they did in 2015, this results in an actuarial loss for the Retirement System. The actual rate of investment return in FY 2015 was 2.6 percent, which is lower than the assumed rate of return.

** Source: CAFR for the Fiscal Year ended September 30, 2015, p. 59*



Employer Normal Cost Contribution Rates for FY 16

Normal Cost is the actual cost of the retirement benefit a member earns each year, and is set using the assumed rate of investment return shown above in addition to other actuarial assumptions. All Pension Plus members, all MIP members, and some Basic members contribute toward the cost of their retirement benefits. After member contributions are accounted for, the employer pays the remainder of the Normal Cost as shown here.



Office Closures

May 30, 2016 - Memorial Day

July 4, 2016- Independence Day

September 5, 2016 - Labor Day

Our website is available seven days a week, even when our office is closed: www.michigan.gov/orsschools

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Printed by authority of 1980 P.A. 300, as amended